

MSCI Taiwan dividends

A thorny rose

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Key takeaways

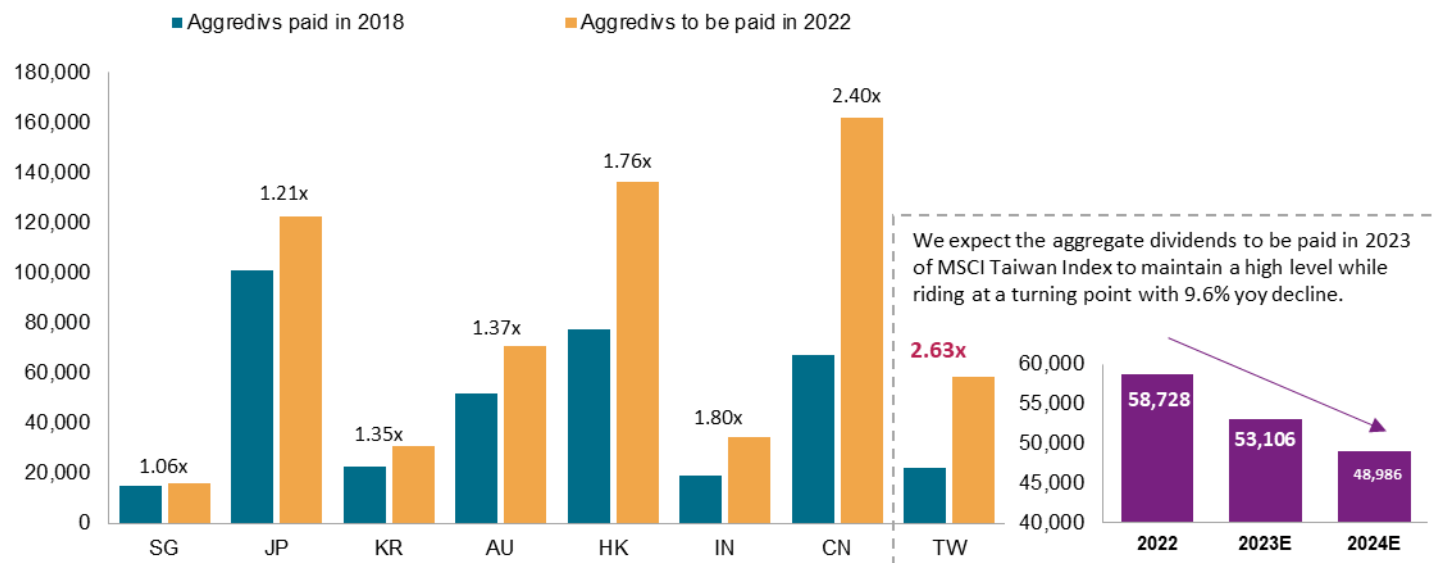
- For dividends to be paid in 2023, total payouts of MSCI Taiwan Index are estimated to hit USD53.1 billion, a slight 9.6% year on year (y/y) drop, but more than double compared with payouts from five years ago. Key sectors such as semiconductors and financials are expected to experience on average 13.5% y/y cut because of record-high figures last year; marine transportation, however, maintains its dividend surge by 21.2% y/y.
- MSCI Taiwan Index is taking an absolute lead in Asia Pacific with its appealing average trailing dividend yield at 5.57% and forward dividend yield at 5.11%, mainly attributable to this market's brimmed aggregate dividends expected ahead and its long-standing aggressive distribution style.
- The ex-date pattern has been quite volatile and ambiguous in recent years. Last year, the number of ex-dates in June nearly doubled, compared with that in FY 2019. This also means that the aggregate dividends of TWD636.8 billion peaked in June rather than the usual busy month of July, mostly owing to the ex-date movements of a few key dividend distributors like Media Tek and Evergreen Marine.
- Based on our analysis of last year's ex-date pattern, the unexpected shift of the annual general meeting (AGM) date rather than the announcement date (AD) is a better forecasting signal for potential ex-date movements for dividends to be paid in 2023.

2.6X continuous surge since 2018, but a 9.6% y/y drop expected in 2023

The Taiwanese market has no doubt experienced a golden era in recent years thanks to the pandemic-induced semiconductor upturns and exports boom after a lackluster decade. Aggregate dividends more than doubled from USD22.3 billion to USD58.7 billion in the past four years, outperforming other Asia Pacific dominant markets such as mainland China (2.4X), South Korea (1.4X), and India (1.8X). For dividends to be paid in 2023, however, we expect the total payouts of MSCI Taiwan Index to maintain a high level while riding at a turning point with 9.6% y/y decline mounted to USD53.1 billion. The drop mainly resulted from a subdued economy since second half 2022, with record-low export

orders and softer demand for consumer electronics. According to the ministry of economic affairs, Taiwan's export orders were 12.1% y/y lower at USD35.8 billion in December of 2022, the steepest drop since March 2009. Furthermore, global demand for electronics products was slipping off because of inflation-induced weakening consumer purchasing power and cost pressure arising from the supply chain disruptions under strict COVID-19 policy last year from the mainland.

APAC major market aggregate dividends comparison (USD,million)



Data compiled Jan.10, 2023.
Data covers all analyst stocks.
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With FY 2022 final dividends left to be paid in the first half/quarter of 2023, we expect that key sectors such as semiconductors and financials will experience on average a 13.5% y/y cut due to record-high payouts last year, but marine transportation will maintain its upward momentum.

Semiconductor

Taiwanese semiconductor aggregate dividends paid last year hit a record high of USD18.2 billion, nine times of the payout five years ago. However, we expect a slight decrease of total payouts at 5.5% y/y in FY 2022 (although still higher than that of FY 2020), mostly owing to industry-wide supply chain inventory correction. Compared with peers (Novatek Microelectronics -31% y/y, Win Semiconductors -56% y/y, Silergy -73% y/y) for which loading rates easing into the second half of last year, some companies' (United Microelectronics +51% y/y, Ememory Technology +44% y/y, Powerchip Semiconductor Manufacturing +27% y/y) production remains full, as demand from networking, industrial, auto and server offset downside from consumer, computing, and communication applications. We expect more than half the companies to heavily cut or maintain their dividends for FY 2022, led by those exposed mostly to the hard-hit declining consumer electronics (especially Android) market. Many major players started to reserve cash during sector downturns, led by TSMC cutting its capex to USD36 billion in 2022.

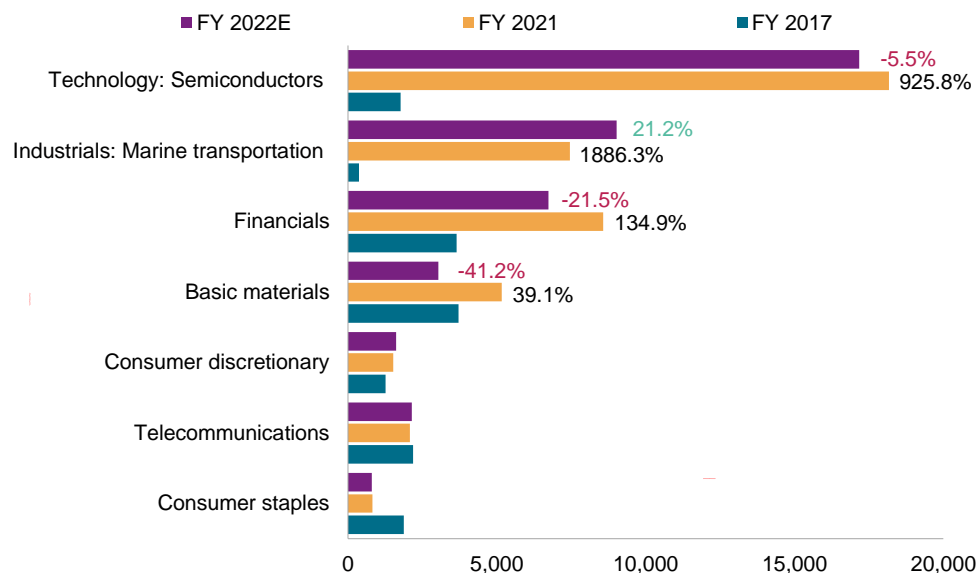
Marine transportation

Despite its already unparalleled dividend growth (+1,886.3%) in the past five years, we expect the marine transportation sector to register another 21.2% y/y dividend increase to USD9.0 billion for FY 2022. Supply disruptions caused by pandemic-induced port congestions eased and global demand for shipping containers slowed down amid a sluggish economy. As a result, three major Taiwanese cargo shippers—Evergreen Marine, Yang Ming Marine, and Wan Hai Lines—all registered a y/y quarterly decline in the third quarter, in line with a persistent downtrend of spot freight rates on major routes since August last year. However, in terms of full-year dividends for FY 2022, the impact will not be that much owing to their upbeat first half performance.

Financials

Mainly benefitting from the flourishing equity market, the aggregate dividends for the Taiwanese financials sector surged by nearly 134.9% during FY 2017–21. However, the stunning spotlight has disappeared this year, led by Fubon Financial Holding, CTBC Financial Holding, and Cathay Financial Holding, all disclosing double digit slips (30–50% y/y) in net profits in their most recent third quarter conference meetings. The losses mainly resulted from two business lines: life insurance and asset management businesses. We expect CTBC and Cathay financial holdings to cut their FY 2022 dividends by 12% y/y and 28% y/y, respectively, mostly attributable to the COVID-19–related claims loss under the insurance segments. While for Fubon, we estimate a 22.9% y/y sharp decline as a reflection of sluggish fees income for asset management subsidiaries under market downturns.

MSCI TW key sector trends (USD, million)

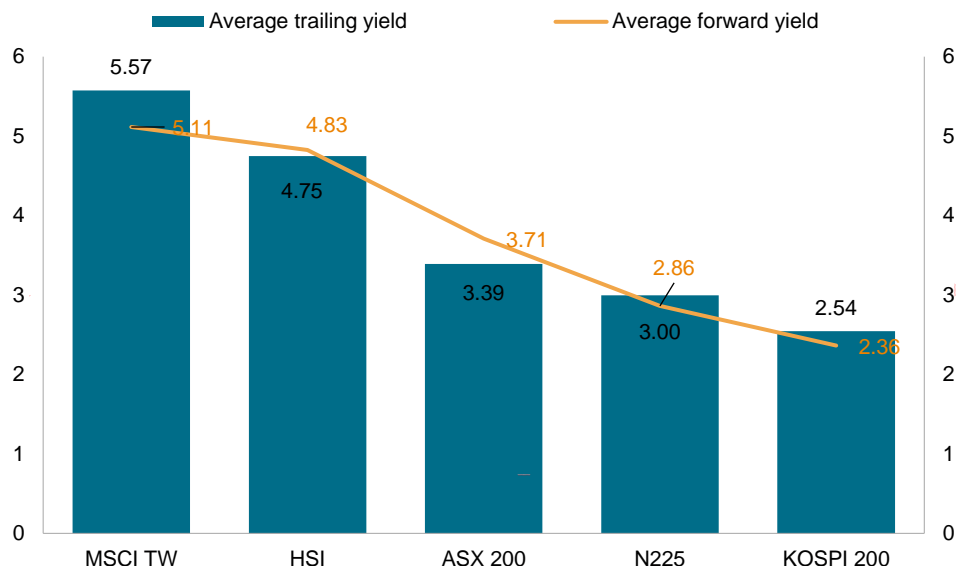


Data compiled Jan. 10, 2023.
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MSCI Taiwan: Dividend yield leading its Asia Pacific peers

MSCI Taiwan Index is taking an absolute lead with its appealing dividend yields, outperforming other Asia Pacific esteemed indexes like HSI and ASX 200, both on trailing and forward yields. This is no surprise with its skyrocketing dividends in the past decade as discussed above and its widely known aggressive payout style (e.g., some tech firms to set its payout ratio at over 80%). Specifically on the forward-looking side, MSCI Taiwan Index demonstrates a weaker outlook, in line with its slight downturn of aggregate dividends expected for FY 2022, although still at edge compared to other peers. Sector-wise, industrials and technology are the top contributors to market-level dividend yields.

Asia Pacific major indices average trailing and forward yield comparison



Data compiled Jan. 10, 2023.

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Industrials rank as top at an average forward yield of 8.32%, with Yang Ming Marine and Wan Hai Lines outperforming most with forward yield of 34.41% and 12.85%, respectively, on the recovery of oil and as demand and high-level (mostly in first half 2022) freight rates last year. For technology, United Microelectronics and Media Tek have been undoubtedly aggressively paying dividends with their ratios at around 65–80% whereas other technology firms like TSMC tend to sustain their ratio at around 50%. For Media Tek specifically, the board also claimed to release a special cash dividend (CR) of TWD16 per share every year from 2021 to 2024, on top of the regular cash dividends, further pushing up its already skyrocketing dividend yields.

Rosy dividend market, risky ex-date movements

Attractive as always with its skyrocketing dividend growth rate and above-average yield performance, the Taiwan market has, however, troubled investors with its volatile and ambiguous ex-date pattern in recent years. In the year of 2021 (FY 2020), all the publicly listed companies in Taiwan market suffered from the sudden surge of daily COVID-19 cases and postponed their annual general meeting (AGMs) as requested by the Financial Supervisory Commission (FSC). As a result, nearly one-third of companies listed in MSCI Taiwan Index rolled over their ex-dates to August. For the year of 2022 (FY 2021), market expected the ex-date peak to be back to July as that of FY 2019, nevertheless; we observed a new trend of companies bringing forward their ex-dates to June instead.

Ex-date distribution for MSCI Taiwan constituents

| | Before May | Jun | Jul | Aug | Sep | NA |
|---------------------|------------|-----|-----|-----|-----|----|
| Year 2020 (FY 2019) | 0 | 10 | 77 | 0 | 0 | 0 |
| Year 2022 (FY 2021) | 1 | 31 | 55 | 0 | 0 | 0 |

Data compiled Jan. 9, 2023.

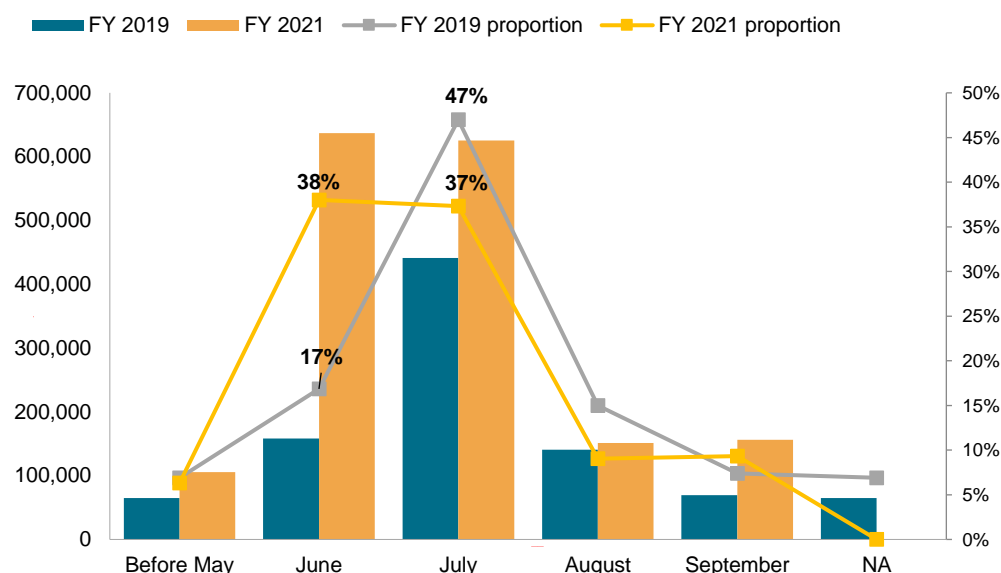
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For FY 2021, the number of ex-dates in June nearly doubled, compared with that in FY 2019. This also means that aggregate dividends of TWD636.8 billion peaked in June rather than the usual busy month of July. Accordingly, the proportion of aggregate dividend contribution in June hiked to 38%, compared with that of 17% in FY 2019, mostly attributable to the ex-date movements of a few key dividend distributors like Media Tek, Evergreen Marine, United Microelectronics, and ASE Technology Holding. The unexpected aggregate dividends out of July expiry added significant

risks to the pricing of dividend derivatives linked to MSCI Taiwan Index, which was among the top 10 indexes for trading dividend products as captured in the latest survey of Eurex MSCI derivatives .

MSCI Taiwan aggregate dividend comparables by XD



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AD vs AGM—Which is a better forecasting signal for ex-date movements?

With no clear or formal guidance for such unexpected ex-date movements, we formed two possible explanations based on our discussions with the investor relations teams of a few Taiwanese companies. First, as encouraged by the FSC’s ‘Corporate Governance 3.0 – Sustainable Development Roadmap’ promoting listed Taiwanese companies to publish unaudited annual information within 75 days after the end of the fiscal year, a number of companies shifted forward their ADs to mid-February last year. With ahead dividend distribution plans released, they further brought forward their AGMs and accordingly advanced ex-dates due to the earlier resolution during AGMs. Indeed, we see a clear pattern of 26 companies setting relatively earlier ADs in FY 2021 compared to those of FY 2019. However, only 9 out of those 26 companies shifted their ex-dates forward at the same time. With such a weak forecasting correlation of around 34.6%, we see limited advantage of AD as an alerting signal for future ex-date movements.

Another possible reason is the company’s tendency to bring forward their AGMs in response to shareholders’ willingness owing to Taiwan’s AGM disruption in FY 2020. Along with the AGM shifts owing to ahead ADs illustrated previously, we see over 20 additional AGMs being set in May instead of June in FY 2021, compared with that in FY 2019. Of the 22 companies that brought forward their AGMs in FY 2021, 16 companies shifted their ex-dates in the same direction, representing a relatively strong correlation of 72.7%. Most importantly, 15 out of these 16 companies maintained their AGM-XD gap based on the new AGM dates. We therefore recognize AGMs as a better alerting signal for future ex-date movements.

AGM date distribution for MSCI Taiwan constituents

| | Apr | May | Jun | July | Aug | NA |
|---------------------|-----|-----|-----|------|-----|----|
| Year 2020 (FY 2019) | 1 | 13 | 47 | 20 | 5 | 1 |
| Year 2022 (FY 2021) | 5 | 24 | 37 | 18 | 3 | 0 |

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Current forecast for FY 2022 ex-dates

We output medium confidence ranks for companies which already adopted this new pattern for FY 2021's final dividends while label low confidence ranks companies which maintained its ex-date pattern unchanged so far. According to FSC's corporate governance 3.0, all companies listed in MSCI Taiwan Index are encouraged to bring forward their ADs to mid-February until the year of 2024. These companies are therefore likely to alter their ex-date pattern in the upcoming years. we will continue monitor any AD or AGM pattern changes for FY 2022 dividends and alert potential ex-date movements ahead of time.

| FY 2022 XD confidence level Company's responses in FY 2021 | FY 2022 ex-date confidence level | Key companies |
|---|---|--|
| Company brought forward ex-dates for FY 2021's final dividend | Medium | 2317.TW, 2454.TW, 2603.TW, 3711.TW, 2303.TW... |
| Company maintained ex-dates for FY 2021's final dividend | Low | 1216.TW, 1605.TW, 2105.TW, 2474.TW, 2912.TW... |

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Appendix

Ex-date distribution pattern if AGM is brought forward in FY 2021

| Stock name | ISIN | AGM forward? | XD forward? | AGM-XD gap pattern? |
|---|--------------|--------------|-------------|---------------------|
| Silergy | KYG8190F1028 | Yes | Yes | - |
| Zhen Ding Technology Holding | KYG989221000 | Yes | Yes | Yes |
| Taiwan Cement | TW0001101004 | Yes | Yes | Yes |
| Uni-President Enterprises Corporation | TW0001216000 | Yes | - | - |
| Walsin Lihwa | TW0001605004 | Yes | - | - |
| Powerchip Semiconductor Manufacturing | TW0006770001 | Yes | Yes | Yes |
| Cheng Shin Rubber | TW0002105004 | Yes | - | - |
| United Microelectronics | TW0002303005 | Yes | Yes | Yes |
| Hon Hai Precision Ind | TW0002317005 | Yes | Yes | Yes |
| Winbond Electronics | TW0002344009 | Yes | Yes | Yes |
| Synnex Technology International Corporation | TW0002347002 | Yes | Yes | Yes |
| Media Tek | TW0002454006 | Yes | Yes | Yes |
| Catcher Technology | TW0002474004 | Yes | - | - |
| Evergreen Marine | TW0002603008 | Yes | Yes | Yes |
| China Air Lines | TW0002610003 | Yes | Yes | Yes |
| Wan Hai Lines | TW0002615002 | Yes | Yes | Yes |
| Shin Kong Financial Holding | TW0002888005 | Yes | Yes | Yes |
| Yangming Marine Transport | TW0002609005 | Yes | NA | NA |
| President Chain Store Corporation | TW0002912003 | Yes | - | - |
| WPG Holding | TW0003702007 | Yes | Yes | Yes |
| Wiwynn Corp | TW0006669005 | Yes | Yes | Yes |
| Nan Ya PCB | TW0008046004 | Yes | Yes | Yes |

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